Iraqi Economy

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1. The economy is the untold success story in Iraq

GDP growth Nominal (2003 est.): $26.4 billion (2004 est.): $63.9 billion (2005 forecast): $98.0 billion
Real (2003 est.): -28.5% (2004 est.): 54% (2005 forecast): 34%
Relatively low inflation (2003 est.): 10.7% (2004 est.): 14.9% (2005 forecast): 11.2%
Stable exchange rate US$1=ID 1,529, compared to around US$1=ID1,950 following the launch of the NIC in mid-October 2003
Relatively low unemployment 20-30% official estimates 10% according to household survey

2. All miraculous for a country in Iraq's situation.

Some of it was relatively easy:
Lifting sanctions
Releasing accumulated revenues in the oil for food programme
Restoring oil production and export
There were other smart moves:
Simple flat and low tax system
Essentially zero tariffs (5% reconstruction levy)
Currency reform – re-establishing control over the monitory policy (also truly independent central bank—sofar)
Across the board boost to public sector salaries: avg. 50-fold (although there are long term issues there)
Small success stories:
Giving field commanders discretion to conduct quick win projects
Large 70,000 employment in public works and cleanup projects at $3 per day benefiting young people

3. So what is the problem?

They mostly lie in the political and security field outside the scope of this presentation but there are also economic issues:

Problem of expectations

As with oil dependent countries people expect more for nothing—compare Iraqi to post war Europe. Rent seeking resulting in country wide gold-rush: the state is the quarry.
95% of Iraq's GDP is oil and oil related – mostly rent (extraordinary profit).
By comparison 70% of US GDP is labour. Labour is self sustaining; rents have to be satisfied through import. They are an external income which creates excess demand. What can't be imported becomes very expensive, especially labour. Ultimately no one wants to hire and no one wants to work. They depend on state handout. 60-70% of workforce directly employed by the state. The rest indirectly through state funded production. This dynamic can only be broken by insulating economy from oil revenues which is what Norway does. It is counterintuitive and quite difficult politically.

Mistakes
Concentration on large projects with slow turnaround, susceptible to supply disruptions and invisible in short term. E.g.: large power generation projects (generating capacity restored to pre-war levels but what is the point if the consumer does not see it, especially in Bagdad? Ports and airports. (Bagdad International Airport looks great but what's the point if getting in and out is like playing Russian roulette?)
Rush to spend means less than perfect record keeping and transparency (although the CPA was more transparent the Iraqi governments before it and after it)
Ideology getting in the way of common sense – privatization rhetoric, investment decree (non-implementable declaration) pressure to cut subsidies and eliminate food rations.

4. Going forward

Focus on immediate relief which does not run counter to long term needs e.g. Electricity start from the curb not the power station.
No more mega projects. They only feed mistrust.
Macro policy to counter rent seeking – sterilize oil revenues, protect central bank reserves from avaricious ministries
Don't let Ideology get in the way of common sense Leave economic strategies to fully elected government